

ELK GROVE UNIFIED SCHOOL DISTRICT

Audit Report

STULL ACT PROGRAM

Chapter 498, Statutes of 1983,
and Chapter 4, Statutes of 1999

July 1, 1997, through June 30, 2010



JOHN CHIANG
California State Controller

August 2013



JOHN CHIANG
California State Controller

August 23, 2013

Chet Madison, Sr., President
Board of Education
Elk Grove Unified School District
9510 Elk Grove-Florin Road
Elk Grove, CA 95624

Dear Mr. Madison:

The State Controller's Office audited the costs claimed by the Elk Grove Unified School District for the legislatively mandated Stull Act Program (Chapter 498, Statutes of 1983, and Chapter 4, Statutes of 1999) for the period of July 1, 1997, through June 30, 2010.

The district claimed \$4,362,150 for the mandated program. Our audit found that \$2,158,736 is allowable and \$2,203,414 is unallowable. The costs are unallowable primarily because the district claimed estimated and ineligible costs. The State paid the district \$628,288. Allowable costs claimed exceed the amount paid by \$1,530,448.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by phone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/nh

cc: Steven M. Ladd, Ed.D, Superintendent
Elk Grove Unified School District
Rich Fagan, Associate Superintendent
Elk Grove Unified School District
Carrie Hargis, Director of Fiscal Services
Elk Grove Unified School District
Jacquelyn Levy, President, Board of Education
Sacramento County Office of Education
Scott Hannan, Director
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Audit Report

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Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by the Elk Grove Unified School District for the legislatively mandated Stull Act Program (Chapter 498, Statutes of 1983, and Chapter 4, Statutes of 1999) for the period of July 1, 1997, through June 30, 2010.

The district claimed \$4,362,150 for the mandated program. Our audit found that \$2,158,736 is allowable and \$2,203,414 is unallowable. The costs are unallowable primarily because the district claimed estimated and ineligible costs. The State paid the district \$628,288. Allowable costs claimed exceed the amount paid by \$1,530,448.

Background

The Stull Act, Chapter 498, Statutes of 1983, and Chapter 4, Statutes of 1999, added Education Code sections 44660-44665. The legislation provided reimbursement for specific activities related to evaluation and assessment of the performance of "certificated personnel" within each school district, except for those employed in local discretionary educational programs.

On May 27, 2004, the Commission on State Mandates (CSM) determined that the legislation imposed a state mandate reimbursable under Government Code section 17514.

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on September 27, 2005. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

The Commission approved reimbursable activities as follows:

- Evaluate and assess the performance of certificated instructional employees who perform the requirements of educational programs mandated by state or federal laws as it reasonably relates to the instructional techniques and strategies used by the employee, and the employee's adherence to curricular objectives (Education Code section 44662 subdivision (b) as amended by Chapter 498, Statutes of 1983).
- Evaluate and assess the performance of certificated instructional employees who teach reading, writing, mathematics, history/social science, and science in grades 2 through 11 as it reasonably relates to the progress of pupils toward the State-adopted academic content standards as measured by State-adopted assessment tests (Education Code section 44662 subdivision (b), as amended by Chapter 4, Statutes of 1999).

- Assess and evaluate permanent certificated, instructional, and non-instructional employees who perform the requirements of educational programs mandated by State or federal law and receive an unsatisfactory evaluation in the years in which the permanent certificated employee would not have otherwise been evaluated pursuant to Education Code section 44664. The additional evaluations shall last until the employee achieves a positive evaluation, or is separated from the school district (Education Code section 44664 as amended by Chapter 498, Statutes of 1983).

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Stull Act Program for the period of July 1, 1997, through June 30, 2010.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Elk Grove Unified School District claimed \$4,362,150 for costs of the Stull Act Program. Our audit found that \$2,158,736 is allowable and \$2,203,414 is unallowable.

For the fiscal year (FY) 1997-98 claim, the State paid the district \$18,475. Our audit found that \$114,513 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$96,038, contingent upon available appropriations.

For FY 1998-99 through FY 2004-05, FY 2006-07, and FY 2007-08 claims, the State made no payment to the district. Our audit found that \$1,458,105 is allowable. The State will pay allowable costs claimed, contingent upon available appropriations.

For the FY 2005-06 claim, the State paid the district \$139,177. Our audit found that the entire amount is allowable.

For the FY 2008-09 claim, the State paid the district \$221,236. Our audit found that \$247,802 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$26,566, contingent upon available appropriations.

For the FY 2009-10 claim, the State paid the district \$249,400. Our audit found that \$199,139 is allowable. The State will offset \$50,261 from other mandated program payments due the district. Alternatively, the district may remit this amount to the State.

**Views of
Responsible
Official**

We issued a draft audit report on April 22, 2013. Rich Fagan, Associate Superintendent of Finance and School Support, responded by letter dated May 6, 2013 (Attachment), disagreeing with the audit results. This final audit report includes the district's response.

Restricted Use

This report is solely for the information and use of the Elk Grove Unified School District, the Sacramento County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

August 23, 2013

Schedule 1— Summary of Program Costs July 1, 1997, through June 30, 2010

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustments | Reference ¹ |
|--|-------------------------|------------------------|----------------------|------------------------|
| <u>July 1, 1997, through June 30, 1998</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 215,385 | \$ 108,113 | \$ (107,272) | Finding 1 |
| Total direct costs | 215,385 | 108,113 | (107,272) | |
| Indirect costs | 12,751 | 6,400 | (6,351) | Finding 2 |
| Total direct and indirect costs | 228,136 | 114,513 | (113,623) | |
| Less late filing penalty ² | — | — | — | |
| Total program costs | <u>\$ 228,136</u> | <u>114,513</u> | <u>\$ (113,623)</u> | |
| Less amount paid by state | | (18,475) | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 96,038</u> | | |
| <u>July 1, 1998, through June 30, 1999</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 379,092 | \$ 110,601 | \$ (268,491) | Finding 1 |
| Total direct costs | 379,092 | 110,601 | (268,491) | |
| Indirect costs | 20,130 | 5,873 | (14,257) | Finding 2 |
| Total direct and indirect costs | 399,222 | 116,474 | (282,748) | |
| Less late filing penalty ² | — | — | — | |
| Total program costs | <u>\$ 399,222</u> | <u>116,474</u> | <u>\$ (282,748)</u> | |
| Less amount paid by state | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 116,474</u> | | |
| <u>July 1, 1999, through June 30, 2000</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 493,048 | \$ 115,377 | \$ (377,671) | Finding 1 |
| Total direct costs | 493,048 | 115,377 | (377,671) | |
| Indirect costs | 24,159 | 5,653 | (18,506) | Finding 2 |
| Total direct and indirect costs | 517,207 | 121,030 | (396,177) | |
| Less late filing penalty ² | — | — | — | |
| Total program costs | <u>\$ 517,207</u> | <u>121,030</u> | <u>\$ (396,177)</u> | |
| Less amount paid by state | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 121,030</u> | | |

Schedule 1 (continued)

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustments | Reference ¹ |
|--|-------------------------|------------------------|----------------------|------------------------|
| <u>July 1, 2000, through June 30, 2001</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 389,885 | \$ 120,017 | \$ (269,868) | Finding 1 |
| Total direct costs | 389,885 | 120,017 | (269,868) | |
| Indirect costs | 20,235 | 6,229 | (14,006) | Finding 2 |
| Total direct and indirect costs | 410,120 | 126,246 | (283,874) | |
| Less late filing penalty ² | — | — | — | |
| Total program costs | <u>\$ 410,120</u> | <u>126,246</u> | <u>\$ (283,874)</u> | |
| Less amount paid by state | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 126,246</u> | | |
| <u>July 1, 2001, through June 30, 2002</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 340,432 | \$ 143,409 | \$ (197,023) | Finding 1 |
| Total direct costs | 340,432 | 143,409 | (197,023) | |
| Indirect costs | 13,617 | 5,736 | (7,881) | Finding 2 |
| Total direct and indirect costs | 354,049 | 149,145 | (204,904) | |
| Less late filing penalty ² | — | — | — | |
| Total program costs | <u>\$ 354,049</u> | <u>149,145</u> | <u>\$ (204,904)</u> | |
| Less amount paid by state | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 149,145</u> | | |
| <u>July 1, 2002, through June 30, 2003</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 465,746 | \$ 175,293 | \$ (290,453) | Finding 1 |
| Total direct costs | 465,746 | 175,293 | (290,453) | |
| Indirect costs | 37,446 | 14,094 | (23,352) | Finding 2 |
| Total direct and indirect costs | 503,192 | 189,387 | (313,805) | |
| Less late filing penalty ² | — | — | — | |
| Total program costs | <u>\$ 503,192</u> | <u>189,387</u> | <u>\$ (313,805)</u> | |
| Less amount paid by state | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 189,387</u> | | |

Schedule 1 (continued)

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustments | Reference ¹ |
|--|-------------------------|------------------------|----------------------|------------------------|
| <u>July 1, 2003, through June 30, 2004</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 436,433 | \$ 192,026 | \$ (244,407) | Finding 1 |
| Total direct costs | 436,433 | 192,026 | (244,407) | |
| Indirect costs | 24,702 | 10,869 | (13,833) | Finding 2 |
| Total direct and indirect costs | 461,135 | 202,895 | (258,240) | |
| Less late filing penalty ² | — | — | — | |
| Total program costs | <u>\$ 461,135</u> | <u>202,895</u> | <u>\$ (258,240)</u> | |
| Less amount paid by state | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 202,895</u> | | |
| <u>July 1, 2004, through June 30, 2005</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 402,938 | \$ 160,881 | \$ (242,057) | Finding 1 |
| Total direct costs | 402,938 | 160,881 | (242,057) | |
| Indirect costs | 15,916 | 6,355 | (9,561) | Finding 2 |
| Total direct and indirect costs | 418,854 | 167,236 | (251,618) | |
| Less late filing penalty ² | — | — | — | |
| Total program costs | <u>\$ 418,854</u> | <u>167,236</u> | <u>\$ (251,618)</u> | |
| Less amount paid by state | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 167,236</u> | | |
| <u>July 1, 2005, through June 30, 2006</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 130,965 | \$ 160,269 | \$ 29,304 | Finding 1 |
| Training | 297 | 341 | 44 | Finding 1 |
| Total direct costs | 131,262 | 160,610 | 29,348 | |
| Indirect costs | 7,915 | 12,512 | 4,597 | Finding 2 |
| Total direct and indirect costs | 139,177 | 173,122 | 33,945 | |
| Less allowable costs that exceed costs claimed ³ | — | (33,945) | (33,945) | |
| Total program costs | <u>\$ 139,177</u> | <u>139,177</u> | <u>\$ —</u> | |
| Less amount paid by state ⁴ | | (139,177) | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ —</u> | | |

Schedule 1 (continued)

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustments | Reference ¹ |
|--|-------------------------|------------------------|----------------------|------------------------|
| <u>July 1, 2006, through June 30, 2007</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 187,316 | \$ 180,355 | \$ (6,961) | Finding 1 |
| Total direct costs | 187,316 | 180,355 | (6,961) | |
| Indirect costs | 14,648 | 14,104 | (544) | Finding 2 |
| Total program costs | <u>\$ 201,964</u> | 194,459 | <u>\$ (7,505)</u> | |
| Less amount paid by state | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 194,459</u> | | |
| <u>July 1, 2007, through June 30, 2008</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 215,617 | \$ 181,729 | \$ (33,888) | Finding 1 |
| Total direct costs | 215,617 | 181,729 | (33,888) | |
| Indirect costs | 11,277 | 9,504 | (1,773) | Finding 2 |
| Total program costs | <u>\$ 226,894</u> | 191,233 | <u>\$ (35,661)</u> | |
| Less amount paid by state | | — | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 191,233</u> | | |
| <u>July 1, 2008, through June 30, 2009</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 242,517 | \$ 237,723 | \$ (4,794) | Finding 1 |
| Total direct costs | 242,517 | 237,723 | (4,794) | |
| Indirect costs | 10,283 | 10,079 | (204) | Finding 2 |
| Total program costs | <u>\$ 252,800</u> | 247,802 | <u>\$ (4,998)</u> | |
| Less amount paid by state | | (221,236) | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 26,566</u> | | |
| <u>July 1, 2009, through June 30, 2010</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 236,825 | \$ 189,098 | \$ (47,727) | Finding 1 |
| Total direct costs | 236,825 | 189,098 | (47,727) | |
| Indirect costs | 12,575 | 10,041 | (2,534) | Finding 2 |
| Total program costs | <u>\$ 249,400</u> | 199,139 | <u>\$ (50,261)</u> | |
| Less amount paid by state | | (249,400) | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ (50,261)</u> | | |

Schedule 1 (continued)

| Cost Elements | Actual Costs Claimed | Allowable per Audit | Audit Adjustments | Reference ¹ |
|---|-------------------------|------------------------|-----------------------|------------------------|
| <u>Summary: July 1, 1997, through June 30, 2010</u> | | | | |
| Direct costs | | | | |
| Salaries and benefits | | | | |
| Evaluation activities | \$ 4,136,199 | \$ 2,074,891 | \$ (2,061,308) | |
| Training | 297 | 341 | 44 | |
| Total direct costs | 4,136,496 | 2,075,232 | (2,061,264) | |
| Indirect costs | 225,654 | 117,449 | (108,205) | |
| Total direct and indirect costs | 4,362,150 | 2,192,681 | (2,169,469) | |
| Less allowable costs that exceed costs claimed | — | (33,945) | (33,945) | |
| Less late filing penalty | — | — | — | |
| Total program costs | <u>\$ 4,362,150</u> | 2,158,736 | <u>\$ (2,203,414)</u> | |
| Less amount paid by state | | (628,288) | | |
| Allowable costs claimed in excess of (less than) amount paid | | <u>\$ 1,530,448</u> | | |

¹ See the Findings and Recommendations section.

² The district filed its FY 1997-98 through FY 2004-05 initial reimbursement claims by the due date specified in Government Code section 17560, and amended the claims after the due date. Pursuant to Government Code section 17568, the State assessed a late filing penalty equal to 10% of allowable costs that exceed the timely filed claim amount, with no maximum penalty amount (for claims amended on or after September 30, 2002). Allowable costs do not exceed the initial amount claimed for FY 1997-98 through FY 2004-05. Therefore, there is no late claim penalty.

³ Government Code section 17568 stipulates that the State will not reimburse any claim more than one year after the filing deadline specified in the SCO's claiming instructions. That deadline has expired for FY 2005-06.

⁴ Payment from funds appropriated under Chapter 724, Statutes of 2010 (Assembly Bill No. 1610).

Findings and Recommendations

FINDING 1— Overstated salaries and benefits

The district claimed \$4,136,496 in salaries and benefits for the audit period. We determined that \$2,075,232 is allowable and \$2,061,264 is unallowable. The costs are unallowable primarily for the following reasons:

- The district misstated hours and reimbursable activities for fiscal year (FY) 2000-01 through FY 2009-10, totaling \$1,829,712 in overstated costs.
- The district did not provide documentation supporting evaluations completed for FY 1997-98 through FY 1999-2000, totaling \$753,434. We determined allowable costs for this period by using the current audit results for FY 2000-01, and applying the Implicit Price Deflator to determine prior year costs.
- The district underclaimed evaluations for FY 2000-01 through FY 2009-10, totaling \$518,788.
- The district miscalculated productive hourly rates for FY 2000-01 through FY 2009-10 totaling \$3,050 in understated costs.
- The district underclaimed training costs for FY 2005-06 by \$44. The district claimed \$297; we determined that \$341 is allowable.

The following table summarizes the unallowable salaries and benefits by fiscal year:

| <u>Fiscal Year</u> | <u>Amount Claimed</u> | <u>Amount Allowable</u> | <u>Audit Adjustment</u> |
|-----------------------------|---------------------------|-----------------------------|-----------------------------|
| 1997-98 | \$ 215,385 | \$ 108,113 | \$ (107,272) |
| 1998-99 | 379,092 | 110,601 | (268,491) |
| 1999-2000 | 493,048 | 115,377 | (377,671) |
| 2000-01 | 389,885 | 120,017 | (269,868) |
| 2001-02 | 340,432 | 143,409 | (197,023) |
| 2002-03 | 465,746 | 175,293 | (290,453) |
| 2003-04 | 436,433 | 192,026 | (244,407) |
| 2004-05 | 402,938 | 160,881 | (242,057) |
| 2005-06 | 131,262 | 160,610 | 29,348 |
| 2006-07 | 187,316 | 180,355 | (6,961) |
| 2007-08 | 215,617 | 181,729 | (33,888) |
| 2008-09 | 242,517 | 237,723 | (4,794) |
| 2009-10 | 236,825 | 189,098 | (47,727) |
| Total salaries and benefits | <u>\$ 4,136,496</u> | <u>\$ 2,075,232</u> | <u>\$ (2,061,264)</u> |

Time Documentation and Unallowable Activities

The time documentation submitted by the district represented multiple claiming methodologies throughout the audit period. We reviewed each claiming methodology and concluded that the time documentation was insufficient to support costs claimed. The claiming methodologies were as follows:

- For FY 1997-98 through 2004-05, the time documentation consisted of the year-end estimates of hours that were completed in the form of a survey. The time surveys represented hours that were estimated at the end of each fiscal year. We did not accept the time surveys in support of claimed costs because they were not completed contemporaneously and also varied greatly from other subsequent time tracking methodologies employed by the district in later years.
- Starting in FY 2005-06, the district evaluators maintained evaluation hours via time tracking forms. In many instances however, the forms did not segregate claimed hours and therefore, did not provide sufficient detail to accurately determine the reimbursable activities.

The varying claiming methodologies resulted in inconsistent time documentation practices throughout the audit period. We noted the following during our review of the time tracking forms for FY 2005-06 through FY 2009-10:

- The time increments for the same activity varied greatly from year to year and from one tracking methodology to another.
- The documentation provided lacked a detailed account of activities for the hours claimed. The district did not support the reasonableness of varying efforts, by evaluators based on the limited documentation that did provide adequate detail.
- Some documentation that included the detailed account of claimed activities identified unallowable activities claimed, such as pre-, post-, or goals conferences. However, the hours were recorded in one-time block and did not provide time increments by each specific activity. The district did not segregate the unallowable hours because claimed hours were not accounted for separately for each step in the evaluation process.
- Some documentation also presented a single time block for multiple evaluations of employees without identifying the employee names and the time it took for each evaluation. Therefore, the district did not support whether those unidentified evaluations met reimbursable criteria for frequency of evaluations specific to employment status and for program assignments mandated by state or federal law.
- The district-provided documentation did not support the amount of follow-up evaluations that were performed as a result of potentially unsatisfactory evaluations.

Average Hours per Evaluation

The district used an average time allotment per evaluation for FY 2006-07, FY 2007-08, and FY 2008-09 to calculate claimed costs. For FY 2006-07, the time allotment per evaluation ranged from 1 hour to 3.5 hours. For FY 2007-08, the allotment was fixed at 2.5 hours, and for FY 2008-09 it was fixed at 2.42 hours.

We determined a rounded average of 2.5 hours per evaluation based on the sample of documentation that provided adequate detail about activities claimed and identified specific evaluations completed. We

applied this average time allotment to all allowable evaluations for the tested period of FY 2000-01 through FY 2009-10. We determined the allowable evaluations based on our analysis of all evaluations completed for certificated personnel within the district throughout the audit period.

For the allowable unsatisfactory evaluations, we doubled the average of 2.5 hours, to a total of 5 hours to account for the additional reimbursable activities.

Allowable Evaluations

The district used its Quintessential School Systems (QSS) database to track evaluations received throughout the audit period. We used the district's data to ensure that only eligible evaluations were counted for reimbursement in each fiscal year. The program's parameters and guidelines allow reimbursement for those evaluations conducted for certificated instructional personnel who perform the requirements of educational programs mandated by state or federal law during specific evaluation periods.

The data provided for completed evaluations was not complete for the first three years of the audit period. Therefore, we used the data for FY 2000-01 as the "base" year, in which the evaluation data was most complete. After completing our analysis of allowable evaluations for FY 2000-01 through FY 2009-10, we then applied an Implicit Price Deflator to the total allowable costs in FY 2000-01 to determine allowable costs for FY 1999-2000, FY 1998-99, and FY 1997-98.

The table below summarizes the total number of evaluations by fiscal year, and lists evaluations not reimbursable under the mandated program:

| Fiscal Year | Claimed Evaluations | Duplicate Same Year | Duplicate Consecutive Years | Charter Schools | Job Site / Job Name | Unsatisfactory Evaluations * | Allowable Evaluations |
|-------------|---------------------|---------------------|-----------------------------|-----------------|---------------------|------------------------------|-----------------------|
| 2000-01 | 988 | (79) | - | (2) | (133) | - | 774 |
| 2001-02 | 1,517 | (400) | (52) | (3) | (144) | (3) | 915 |
| 2002-03 | 1,729 | (396) | (35) | - | (222) | (3) | 1,073 |
| 2003-04 | 1,656 | (340) | (25) | - | (126) | (8) | 1,157 |
| 2004-05 | 1,372 | (298) | (28) | - | (77) | (3) | 966 |
| 2005-06 | 1,418 | (359) | (20) | (1) | (89) | (3) | 946 |
| 2006-07 | 1,534 | (353) | (23) | - | (124) | (1) | 1,033 |
| 2007-08 | 1,550 | (344) | (18) | - | (138) | (1) | 1,049 |
| 2008-09 | 1,771 | (244) | (20) | (6) | (168) | (1) | 1,332 |
| 2009-10 | 1,398 | (143) | (71) | (2) | (137) | (2) | 1,043 |
| Total | 14,933 | (2,956) | (292) | (14) | (1,358) | (25) | 10,288 |

* Unsatisfactory evaluations represent the number of allowable unsatisfactory evaluations that were accounted for separately.

The non-reimbursable evaluations included the following:

- Duplicate teacher evaluations claimed multiple times in one school year;
- Permanent biannual teacher evaluations claimed every year rather than every other year;
- Evaluations of employees at charter schools and non-instructional school sites;
- Principals, vice principals, directors, counselors, psychologists, librarians (and others) who are not certificated instructional employees; and
- Certificated instructional employees who worked on educational programs not mandated by state or federal law.

Additional Evaluators

Our review of the allowable evaluations found that many evaluators were not included in the claims. The evaluators were principals or vice principals who completed the evaluation of the certificated employees in the audit period, but those evaluations were omitted from the claims. Because we applied the average time increment of 2.5 hours per evaluation to all eligible evaluations in the audit period, we calculated allowable costs for those evaluations that were not claimed. The summary table of allowable evaluations, presented above, includes the additional evaluations that we identified as a result of our analysis. The total audit adjustment for the additional evaluators totaled \$518,788 for FY 2000-01 through FY 2009-10.

Productive Hourly Rates

The district used a hybrid system of claiming productive hourly rates. For any employees whose actual productive hours fell below 1,800, the district used actual hours for each employee. For those employees whose productive hours were greater than 1,800, the district capped the hours at 1,800 and did not use actual productive hours.

The SCO's State Mandated Cost Manual states that school districts may use one of the following methods to compute productive hourly rates:

- Actual annual productive hours for each employee;
- The weighted-average annual productive hours for each job title; or
- 1,800 annual productive hours for all employees.

The hybrid system used by the district is not an acceptable method of computing productive hourly rates. Therefore, we recalculated productive hourly rates for evaluators using the payroll and benefit rate data provided by the district and used actual productive hours to calculate the rates. We then applied the recalculated rates to allowable evaluation hours. The adjustment related to productive hourly rate calculation totaled \$3,050 for FY 2000-01 through FY 2009-10.

Implicit Price Deflator

Given the documentation limitations for FY 1997-98, FY 1998-99, and FY 1999-2000, we agreed with the district to use the Implicit Price Deflator and apply it to allowable costs for FY 2000-01, when the supporting documentation was most complete. We used the allowable salaries and benefits in FY 2000-01 as the “base” year and applied the Implicit Price Deflator to the three earliest years in the audit period. Allowable salaries and benefits in FY 2000-01 totaled \$120,017. Using the Implicit Price Deflator resulted in the following allowable salaries and benefits: \$115,377 for FY 1999-2000; \$110,601 for FY 1998-99; and \$108,113 for FY 1997-98. The total salaries and benefits adjustment for FY 1997-98 through FY 1999-2000 was \$753,434.

Training Costs

The district claimed \$297 in training costs for FY 2005-06. Our analysis revealed allowable training costs of \$341 for FY 2005-06. The \$44 understated training costs occurred primarily because the district used incorrect productive hourly rates for the employees receiving training.

The program’s parameters and guidelines (section IV.A.1) state that the following is reimbursable:

Evaluate and assess the performance of certificated instructional employees that perform the requirements of educational programs mandated by state or federal law as it reasonably relates to the instructional techniques and strategies used by the employee and the employee’s adherence to curricular objectives.

Reimbursement for this activity is limited to:

- a. Reviewing the employee’s instructional techniques and strategies and adherence to curricular objectives, and
- b. Including in the written evaluation of the certificated instructional employees the assessment of these factors during the following evaluation periods:
 - Once each year for probationary certificated employees;
 - Every other year for permanent certificated employees; and
 - Beginning January 1, 2004, every five years for certificated employees with permanent status who have been employed at least ten years with the school district, are highly qualified, and whose previous evaluation rates the employee as meeting or exceeding standards, if the evaluator and certificated employee being evaluated agree.

The parameters and guidelines (section IV – Reimbursable Activities) also state:

To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be

traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual costs was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Recommendation

We recommend that the district ensure that claimed costs are based on actual costs, are for activities reimbursable under the program's parameters and guidelines, and are supported by contemporaneous source documentation.

District's Response

1. Supporting Documentation vs. Corroborating Documentation

The documentation which supports EGUSD's initial claims meets the definition of supporting documentation contained in the Stull Act guidelines. The guidelines state that a source document is a document created at or near the same time the actual cost was incurred for the event "or activity in question". In the case of the Stull Act initial claims, EGUSD administrators did in fact complete time records at or near the time of the "activity in question" was being performed. The "activity in question" is a teacher evaluation. District administrators prepared time records in the first few months of 2006 which documented the costs actually incurred to carry out the eligible mandated teacher evaluation activities. Evaluating and assessing the performance of teachers was ongoing at the time the initial claim documentation was prepared. Therefore this guideline was met.

In addition, the guidelines state that source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts. EGUSD's actual costs are supported by time records and are traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. Therefore, this guideline was met.

2. No District could meet SCO's initial claim supporting documentation interpretation

To address initial claim situations like the Stull Act program, a broad interpretation was envisioned by the Commission. The guidelines do not say "the specific event or activity in question", the guidelines say the "event or activity in question." Without a broader interpretation, no claimant could ever meet this incorrect interpretation of the contemporaneous standard that SCO is applying to EGUSD in this audit. How else could a claimant notified for the first time regarding the Stull Act program at the end of 2005 be able to have or prepare "contemporaneous documentation" for costs incurred from FY 1997/98 through 2004/05? SCO needs to re-examine its position on this issue. If SCO does not re-examine its position, it will create an unfair and illegal result where the handful districts whose initial Stull Act claims were field audited by SCO are penalized while similarly situated claimants get paid.

3. Audit Status Meeting on May 10, 2012

EGUSD's position on its initial claim documentation was explained at length to SCO auditors during a status meeting held May 10, 2012 at EGUSD. At the conclusion of this meeting, SCO indicated they would review this position along with the initial claim documentation. Eight months later, on January 23, 2013 SCO contacted EGUSD to schedule an exit conference. EGUSD had no contact with the SCO auditors during this eight month time frame. EGUSD was led to believe that SCO was reviewing and analyzing the large volume of time records provided to SCO that properly supported the initial claims. However, EGUSD's articulated position regarding the initial claim documentation was not mentioned in the Draft Report. It is unclear to EGUSD what SCO had actually done during this eight month period. No rebuttal to EGUSD's position was provided. SCO simply changed its characterization of the initial claim documentation from "corroborating documentation" to the following:

"For FY 1997-98 through 2004-05, the time documentation consisted of the year-end estimates of hours that were completed in the form of a survey. The time surveys represented approximate hours that were estimated at the end of each fiscal year. We did not accept these documents in support of claimed costs because they were not completed contemporaneously and also varied greatly from other subsequent time tracking methodologies employed by the district in later years."

4. SCO inaccurately characterized EGUSD's initial claim documentation

The SCO description of the initial claims supporting documentation contained in the Draft Report is inaccurate in many ways. Specifically:

- A. "The initial claims were supported by surveys." This is not accurate as the initial claims were supported by time records, not surveys.
- B. "The initial claim documentation represented approximate hours that were estimated at the end of each fiscal year." This is not accurate as the time records were completed in early 2006 for all eight fiscal years which comprised the initial claim period. In addition, the guidelines were not adopted until 2005 so how could EGUSD be completing year end surveys for a reimbursement program that had not been approved by the Commission?
- C. "SCO did not accept these documents in support of claimed costs because they were not completed contemporaneously." This is not accurate as the time records were completely contemporaneously with teacher evaluation activity ongoing during the 2005/06 school year. These records were completed at or near the teacher evaluation activity in question which meets the definition in the guidelines. Refer to Section (1).
- D. "The initial claims varied greatly from other subsequent tracking methods employed by the district in later years." This statement is the only accurate one made by SCO regarding the initial claim years. However, by including this statement here, SCO is inferring the initial claim tracking method is inaccurate and that subsequent year's methods are accurate. This does not reconcile with SCO's statements in the Draft Report which were critical of the majority

of the results of later tracking methods. It should be noted that SCO decided that the small percentage of “properly documented” time records from the later years were sufficient to form the basis of the 2.5 hours per evaluation used to approve costs for the entire audit period.

In all of this analysis, SCO never asked the basic question of why one method yielded a higher average time than the other method. There is no guideline restriction which prevents claimants from utilizing different methods from one year to the next year.

5. The Reason Why the Methodologies Vary

The limited time documentation from the FY 2006/07 through 2008/09 periods used by SCO to derive its allowable 2.5 hours per evaluation did not include all eligible activity within the evaluation process. The forms provided by SCO to EGUSD on April 26, 2013 demonstrate that ongoing informal teacher observation time was not documented and included. This critical, ongoing and time consuming element of the teacher evaluation process was included within the supporting documentation for the initial claim years and is the main reason why the results of the different methods vary.

SCO recognized in its Final Audit Report of the Carlsbad Unified School District dated June 15, 2013 that informal observations are an eligible activity. SCO’s position regarding this activity is stated at the top of page eight of the Carlsbad Unified School District Final Report. EGUSD requests its time spent on this activity be approved as well.

6. Effective Date of the Guidelines is September 27, 2005

SCO’s interpretation of the contemporaneous documentation language contained in the guidelines is a moot point since the guidelines for the Stull Act program were adopted September 27, 2005 by the Commission. The initial claim period predates the date of guideline adoption. SCO’s application of an overly narrow interpretation of the supporting documentation guideline language to claims prior to the fiscal year 2005/06 violates the Clovis Unified School District appellate court decision dated September 21, 2010. This decision found SCO could not apply contemporaneous source documentation requirements (CSDR) prior to the date the CSDR language was actually approved by CSM and added to a program's guidelines. In addition, SCO is using an unlawful retroactive rule to reduce claims.

7. SCO did not complete the audit within two years

Government Code Section 17558.5, (a) states “A *reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit shall be completed not later than two years after the date that the audit is commenced.*”

SCO commenced the Stull Act Mandated Cost audit of EGUSD, for the period July 1, 1997/98 through June 30, 2009 with an engagement letter and documentation request dated October 12, 2010. It should be noted that SCO threatened to disallow all costs for the audit period in an email dated October 29, 2010 based on a mistaken belief that EGUSD had not provided requested documentation. SCO decided to redirect the assigned auditor to another project in November 2010 even though the audit had already commenced and the requested documentation provided. SCO resumed the audit in September 2011 while adding FY 2009110 to the audit scope. The Draft Report for this audit was not issued until April 22, 2013. The completion of this audit will have occurred beyond two years and is in violation of this statute.

In addition, Government Code Section 17558.5(e) states “Nothing in this section shall be construed to limit the adjustment of payments when inaccuracies are determined to be the result of the intent to defraud, or when a delay in the completion of an audit is the result of willful acts by the claimant or inability to reach agreement on terms of final settlement.” None of these exceptions apply to the EGUSD Stull Act audit, SCO simply commenced the audit, decided to postpone the audit and as a result did not complete the audit within two years.

8. Requested Action

EGUSD wants to be reimbursed for its actual cost to comply with this mandate. EGUSD’s initial claims were properly documented and supported according to the guidelines and SCO’s acceptance of this initial claim documentation would be acceptable to EGUSD. EGUSD has already communicated to SCO regarding data entry errors made on its initial claims.

In the alternative, EGUSD is still willing to provide SCO additional assurance regarding its actual costs of conducting teacher evaluations by conducting a time study as proposed in our letter dated April 8, 2013. This proposal was not made because EGUSD had concerns regarding the adequacy of the documentation supporting its initial claims but was made in order to come to an acceptable resolution of this audit for both parties and to avoid protracted and costly actions before the Office of Administrative Law, the Commission, and/or the courts.

On April 17, 2013, however, SCO rejected EGUSD’s time study proposal. SCO’s reasoning was arbitrary and EGUSD did not receive the same treatment afforded to another school district that did a poorer job on its documentation. EGUSD was rejected because a minimal amount of its incomplete documentation was accepted by SCO and now EGUSD somehow has to accept the results of this incomplete product. EGUSD requests that SCO reconsider its decision regarding a current time study or conversely, accept the initial claim documentation

SCO's Comments**1. Supporting Documentation vs. Corroborating Documentation**

The finding and recommendation are unchanged.

The district believes the documentation that supports the district's initial claims met the definition of supporting documentation contained in the Stull Act Program's parameters and guidelines. The district states:

In the case of the Stull Act initial claims, EGUSD administrators did in fact complete time records at or near the time of the "activity in question" was being performed. The "activity in question" is a teacher evaluation. District administrators prepared time records in the first few months of 2006 which documented the costs actually incurred to carry out the eligible mandated teacher evaluation activities . . .

The district claims that time documentation completed in FY 2005-06 represents adequate support for costs claimed for FY 1997-98 through FY 2004-05. We disagree.

The parameters and guidelines state that "a source document is a document created at or near the same time the actual cost was incurred for the event or activity in question." The district's attempt to broadly define the "activity" as a teacher evaluation is misleading. The parameters and guidelines (Section IV) define specific activities that are reimbursable within the evaluation process. These specific activities require proper time documentation created at or near the time the actual costs were incurred.

The documentation submitted for the initial claim filing period of FY 1997-98 through FY 2004-05 did not properly support costs claimed as required by the program's parameters and guidelines. The documentation provided was not created at or near the time the actual costs were incurred. Claimed hours for these years were estimated, were not based on actual time documentation, and therefore were unallowable.

2. No District could meet SCO's initial claim supporting documentation interpretation

The finding and recommendation are unchanged.

The district believes the Commission on State Mandates (CSM) envisioned a broader interpretation for the application of contemporaneous source documentation rule. The district also believes that the SCO's position creates an unfair and illegal position for those districts that were audited. We disagree.

We are bound by the requirements of the program's parameters and guidelines. We conduct our audits in accordance with the criteria outlined in the parameters and guidelines. The parameters and guidelines provide a clear definition of appropriate supporting documentation as well as the reimbursement period to which these criteria apply. The reimbursement period begins on or after July 1, 1997, which is the beginning of the initial claim period.

3. Audit Status Meeting on May 10, 2012

The finding and recommendation are unchanged.

The district communicated its position on initial claim documentation during a status meeting held on May 10, 2012. The district believes that the SCO might not have given enough consideration to the district's comments and did not articulate the district's position in the draft audit report.

The intent of the draft audit report is to present the SCO's findings resulting from the audit. We issued the draft audit report on April 22, 2013, and presented the audit findings to the district. We discussed these findings during the exit conference held on March 7, 2013. At the exit conference, we stated that we took into account the district's comments from the May 10, 2012 status meeting and reviewed supporting documentation once more for the initial claim period of FY 1997-98 through FY 2004-05. The documentation provided for those years did not meet reimbursement criteria. The audit report identifies the reasons for which the time documentation was not adequate.

4. SCO inaccurately characterized EGUSD's initial claim documentation

The finding and recommendation are unchanged.

The district believes the description of the initial claims supporting documentation contained in the draft audit report is inaccurate.

- a. The district believes the initial claims were supported with proper time records rather than surveys. We disagree. The district did not provide any time sheets or time records collected at or near the time claimed hours were incurred in the initial claim years. Rather, the district provided documentation collected years after the costs were incurred. The time estimates were collected by means of surveying the staff that performed, or might have performed, claimed activities. The staff signing the forms included certifications declaring that their recollection of the time spent was true and correct. The forms were signed in early 2006 for activities that took place in FY 1997-98 through FY 2004-05. However, the parameters and guidelines state that declarations cannot be substituted for source documents.
- b. The district disagrees with the SCO's statement that the initial claim documentation represented time estimates rather than actual time. The district states that the time records for FY 1997-98 through FY 2004-05 were completed in FY 2005-06 for all eight fiscal years for the program adopted in the same year.

The parameters and guidelines state that a source document is “a document created at or near the same time the actual costs were incurred for the event or activity in question.” The parameters and guidelines also specify that these criteria apply to the entire reimbursement period beginning July 1, 1997. If the time records were completed “in early 2006 for all eight fiscal years which comprised the initial claim period,” these time records did not meet the reimbursement criteria. In addition, completing time records years after the hours were incurred involves estimating hours for activities that previously took place.

- c. The district disagrees with the SCO’s statement that the documents provided for FY 1997-98 through FY 2004-05 were not completed contemporaneously. The district believes that the time records to support the initial eight years were completed contemporaneously with teacher evaluation activity ongoing during FY 2005-06. We disagree.

Our audit revealed that the time documentation collected contemporaneously during the teacher evaluation process in FY 2005-06 was used to support claimed hours for FY 2005-06. The district used a separate set of documentation collected in the same fiscal year that represented the surveys sent out to the district’s evaluators. The surveys (already mentioned in item 4(a) above) estimated the time for activities that took place in FY 1997-98 through FY 2004-05. The district created two sets of documentation to support costs claimed in the initial eight years of the claim filing period and costs incurred in FY 2005-06.

- d. The district questions why “the SCO is inferring the initial claim tracking method is inaccurate and that subsequent year’s methods are accurate.” The district states that the draft audit report noted some deficiencies in the documentation presented for the later tracking methods. The district believes that our method to calculate the average 2.5 hours per evaluation may not be sufficient. We disagree.

The average of the 2.5 hours per allowable evaluation was based on the district’s own contemporaneous time documentation collected in later years of the audit period. While there is no restriction that prevents claimants from utilizing different methods to support claimed costs from one year to the next, these methods must comply with the requirements of the program. In this instance, the district did not provide proper support for FY 1997-98 through FY 2004-05 costs. Since the evaluation process was static year to year, we used time documentation collected contemporaneously in later years to form the basis of the average time allotment. We applied the average to the entire audit period.

We did note in the draft report some deficiencies with the time documentation collected contemporaneously. However, we also concluded that the average of 2.5 hours per evaluation was a reasonable time allowance based on time samples that did provide adequate detail to comply with the program’s parameters and guidelines.

5. The Reason Why the Methodologies Vary

The finding and recommendation are unchanged.

The district states:

The limited time documentation from the FY 2006/07 through FY 2008/09 periods used by the SCO to derive its allowable 2.5 hours per evaluation did not include all eligible activity within the evaluation process. The forms provided by the SCO to EGUSD on April 26, 2013 demonstrate that ongoing informal teacher observation time was not documented and included. This critical, ongoing and time consuming element of the teacher evaluation process was included within the supporting documentation for the initial claim years and is the main reason why the results of the different methods vary.

The district's time documentation did not support the accuracy of the statement above. The district did not present any evidence supporting that informal observations took place on a regular basis and that those informal observations were not included in the claims for the later years of the audit period.

We disagree with the district's assertion that this activity was included in the supporting documentation for the initial claim years. The time documentation supporting the initial eight years of the audit period failed to segregate claimed hours into individual activities within the evaluation process. The documentation provided estimates of time for "Evaluate and Assess" and "Write-up" activities without providing further details about observations or other steps within the evaluation process. The district did not support whether other activities were included in the claimed hours.

The average per allowable evaluation (2.5 hours) was derived from documentation provided by the district. By signing the claims, the district is assuring the SCO that the information contained in the document is true and correct. If the district believes the documentation in the later years does not accurately reflect all eligible activities, it should make any necessary changes to its claiming process going forward.

6. Effective Date of the Guidelines is September 27, 2005

The finding and recommendation are unchanged.

The district believes that since the guidelines for the Stull Act Program were adopted September 27, 2005, and the initial claim period predates the date of the guideline adoption, all initial claims are not bound by the requirements of the program's parameters and guidelines. We disagree. The "initial claim period" claims are bound by the same requirements as any other claimed year. The adoption date of the guidelines is irrelevant.

7. SCO did not complete the audit within two years

The finding and recommendation are unchanged.

The district states that the SCO “commenced the Stull Act Mandated Cost audit of EGUSD, for the period of July 1, 1997, through June 30, 2009, with an engagement letter and documentation request dated October 12, 2010.” The district further states the SCO postponed the audit and resumed it in September 2011. Therefore, the district believes that the SCO did not complete the audit within two years.

The previous audit opened on October 12, 2010, was cancelled prior to conducting an entrance meeting and performing fieldwork. The current audit was initiated via a phone conversation on September 1, 2011, informing the district and obtaining a mutual understanding that it would be a new audit initiation of the current audit. The two year requirement, for the current audit, began on the initial contact date of September 1, 2011.

8. Requested Action

The finding and recommendation are unchanged.

The district is requesting reimbursement for its actual cost to comply with the mandate. The district is also asking for the SCO’s acceptance of the initial claim documentation. As an alternative, the district is asking to conduct a time study.

The purpose of the audit was to determine the actual increased costs incurred by the district to comply with the mandated program. The results of the audit found that claimed costs were overstated. The district is only entitled to reimbursement for costs that are mandate-related and properly supported. The audit report addresses why the district-submitted documentation is not adequate to support costs claimed in the initial eight years of the audit period.

We calculated 2.5 hours per evaluation based on time documentation the district collected contemporaneously, which was certified by the district when filing the claims. We applied the average to those years in which we had no contemporaneous time documentation to support the claimed costs.

The use of a time study would generally be appropriate in cases where the district did not collect any contemporaneous time records for the claimed period. However, the district provided contemporaneous time records supporting costs claimed. While the claims for the first eight years filed were based on estimated hours, the claims for the latter five years were based on contemporaneous time documentation collected by the district.

**FINDING 2—
Overstated indirect
costs**

The district claimed \$225,654 for indirect costs during the audit period. We determined that \$117,449 is allowable and the net amount of \$108,205 is unallowable (overstated by \$111,032 and understated by \$2,827). The overstatement of \$111,032 occurred as a result of the adjustments noted to salaries and benefits identified in audit Finding 1. The district also understated indirect costs totaling \$2,827 for FY 2005-06 because it understated its indirect cost rate in FY 2005-06.

The following table summarizes the claimed, allowable, and unallowable indirect costs for the audit period by fiscal year:

| <u>Fiscal Year</u> | <u>Amount Claimed</u> | <u>Amount Allowable</u> | <u>Audit Adjustment</u> |
|----------------------|---------------------------|-----------------------------|-----------------------------|
| 1997-98 | \$ 12,751 | \$ 6,400 | \$ (6,351) |
| 1998-99 | 20,130 | 5,873 | (14,257) |
| 1999-2000 | 24,159 | 5,653 | (18,506) |
| 2000-01 | 20,235 | 6,229 | (14,006) |
| 2001-02 | 13,617 | 5,736 | (7,881) |
| 2002-03 | 37,446 | 14,094 | (23,352) |
| 2003-04 | 24,702 | 10,869 | (13,833) |
| 2004-05 | 15,916 | 6,355 | (9,561) |
| 2005-06 | 7,915 | 12,512 | 4,597 |
| 2006-07 | 14,648 | 14,104 | (544) |
| 2007-08 | 11,277 | 9,504 | (1,773) |
| 2008-09 | 10,283 | 10,079 | (204) |
| 2009-10 | 12,575 | 10,041 | (2,534) |
| Total indirect costs | <u>\$ 225,654</u> | <u>\$ 117,449</u> | <u>\$ (108,205)</u> |

For FY 2005-06, the district claimed an indirect cost rate of 6.03% instead of the CDE-approved rate of 7.79%. We recalculated allowable indirect costs using the CDE-approved rate.

The parameters and guidelines (section V.B.) state that school districts must use the indirect cost rate approved by the California Department of Education.

Recommendation

We recommend that the district ensure that the indirect rates it claims agree with CDE-approved rates and that indirect costs are mandate-related and appropriately supported.

District's Response

The district did not respond to this finding.

**Attachment—
District's Response to Draft Audit Report**



Members of the Board

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May 6, 2013

Jim Spano, CPA
Audit Bureau Chief
State Controller's Office Division of Audits
300 Capitol Mall, Suite 500
Sacramento, CA 95814

Subject: Response to the State Controller's Office Stull Act Mandated Cost Draft Audit Report.

Dear Mr. Spano,

We are in receipt of the State Controller's Office (SCO) Draft Report of the Elk Grove Unified School District's Stull Act Mandated Cost Program for the period July 1, 1997 through June 30, 2010. The Draft Report is dated April 22, 2013 and provides EGUSD with 15 days to provide a response regarding the accuracy of any findings. EGUSD provides the following response.

Finding 1

General Comment

EGUSD disagrees with the use of 2.5 hours as the actual average time spent on EGUSD eligible evaluation activities to apply to the eligible evaluations for FY 1997/98 through 2004/05 (initial claims). In addition, EGUSD disagrees with SCO's characterizations and conclusion regarding initial claim documentation.

Draft Report- April 22, 2013

The SCO Draft Report Finding 1, states the following regarding initial claim time documentation and unallowable activities:

"For FY 1997-98 through 2004-05, the time documentation consisted of the year-end estimates of hours that were completed in the form of a survey. The time surveys represented approximate hours that were estimated at the end of each fiscal year. We did not accept these documents in support of claimed costs because they were not completed contemporaneously and also varied greatly from other subsequent time tracking methodologies employed by the district in later years."

SCO Audit Status Document- April 23, 2012

In an audit status document provided to EGUSD on or about April 23, 2012, SCO described this documentation as follows:

"Per the program's parameters and guidelines (IV. Reimbursable Activities), the documentation submitted for FY 1997-98 through FY 2004-05 represent "corroborating" documentation, but does not include contemporaneous records to support hours claimed."

The documentation definitions that SCO is referring come from the *Stull Act Parameters and Guidelines* (guidelines) adopted September 27, 2005 by the Commission on State Mandates (Commission). These guidelines describe two categories of documentation as follows:

"To be eligible for mandated cost reimbursement for any fiscal year, only actual costs may be claimed. Actual costs are those costs actually incurred to implement the mandated activities. Actual costs must be traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. A source document is a document created at or near the same time the actual cost was incurred for the event or activity in question. Source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts.

Evidence corroborating the source documents may include, but is not limited to, worksheets, cost allocation reports (system generated), purchase orders, contracts, agendas, and declarations...Evidence corroborating the source documents may include data relevant to the reimbursable activities otherwise in compliance with local, state, and federal government requirements. However, corroborating documents cannot be substituted for source documents."

Based on its interpretation of the guidelines, SCO has concluded that the documentation supporting EGUSD's initial claims was unacceptable because it was not completed contemporaneously and the documentation was corroborating documentation, and not supporting documentation. SCO appears to interpret the documentation language of the guidelines as requiring FY 1997/98 activity be documented in 1997/98, FY 1998/99 activity be documented in FY 1998/99 and so on. This was not the intent of the guidelines and would effectively prevent any initial claim documentation from ever being accepted under this interpretation.

District Response

1. Supporting Documentation vs. Corroborating Documentation

The documentation which supports EGUSD's initial claims meets the definition of supporting documentation contained in the Stull Act guidelines. The guidelines state that a source document is a document created at or near the same time the actual cost was incurred for the event "or activity in question". In the case of the Stull Act initial claims, EGUSD administrators did in fact complete time records at or near the time of the "activity in question" was being

performed. The "activity in question" is a teacher evaluation. District administrators prepared time records in the first few months of 2006 which documented the costs actually incurred to carry out the eligible mandated teacher evaluation activities. Evaluating and assessing the performance of teachers was ongoing at the time the initial claim documentation was prepared. Therefore this guideline was met.

In addition, the guidelines state that source documents may include, but are not limited to, employee time records or time logs, sign-in sheets, invoices, and receipts. EGUSD's actual costs are supported by time records and are traceable and supported by source documents that show the validity of such costs, when they were incurred, and their relationship to the reimbursable activities. Therefore, this guideline was met.

2. No District could meet SCO's initial claim supporting documentation interpretation

To address initial claim situations like the Stull Act program, a broad interpretation was envisioned by the Commission. The guidelines do not say "the specific event or activity in question", the guidelines say the "event or activity in question." Without a broader interpretation, no claimant could ever meet this incorrect interpretation of the contemporaneous standard that SCO is applying to EGUSD in this audit. How else could a claimant notified for the first time regarding the Stull Act program at the end of 2005 be able to have or prepare "contemporaneous documentation" for costs incurred from FY 1997/98 through 2004/05? SCO needs to re-examine its position on this issue. If SCO does not re-examine its position, it will create an unfair and illegal result where the handful districts whose initial Stull Act claims were field audited by SCO are penalized while similarly situated claimants get paid.

3. Audit Status Meeting on May 10, 2012

EGUSD's position on its initial claim documentation was explained at length to SCO auditors during a status meeting held May 10, 2012 at EGUSD. At the conclusion of this meeting, SCO indicated they would review this position along with the initial claim documentation. Eight months later, on January 23, 2013 SCO contacted EGUSD to schedule an exit conference. EGUSD had no contact with the SCO auditors during this eight month time frame. EGUSD was led to believe that SCO was reviewing and analyzing the large volume of time records provided to SCO that properly supported the initial claims. However, EGUSD's articulated position regarding the initial claim documentation was not mentioned in the Draft Report. It is unclear to EGUSD what SCO had actually done during this eight month period. No rebuttal to EGUSD's position was provided. SCO simply changed its characterization of the initial claim documentation from "corroborating documentation" to the following:

"For FY 1997-98 through 2004-05, the time documentation consisted of the year-end estimates of hours that were completed in the form of a survey. The time surveys represented approximate hours that were estimated at the end of each fiscal year. We did not accept these documents in support of claimed costs because they were not completed contemporaneously and also varied greatly from other subsequent time tracking methodologies employed by the district in later years."

4. SCO inaccurately characterized EGUSD's initial claim documentation

The SCO description of the initial claims supporting documentation contained in the Draft Report is inaccurate in many ways. Specifically:

- (A) "The initial claims were supported by surveys." This is not accurate as the initial claims were supported by time records, not surveys.
- (B) "The initial claim documentation represented approximate hours that were estimated at the end of each fiscal year." This is not accurate as the time records were completed in early 2006 for all eight fiscal years which comprised the initial claim period. In addition, the guidelines were not adopted until 2005 so how could EGUSD be completing year end surveys for a reimbursement program that had not been approved by the Commission?
- (C) "SCO did not accept these documents in support of claimed costs because they were not completed contemporaneously." This is not accurate as the time records were completely contemporaneously with teacher evaluation activity ongoing during the 2005/06 school year. These records were completed at or near the teacher evaluation activity in question which meets the definition in the guidelines. Refer to Section (1).
- (D) "The initial claims varied greatly from other subsequent tracking methods employed by the district in later years." This statement is the only accurate one made by SCO regarding the initial claim years. However, by including this statement here, SCO is inferring the initial claim tracking method is inaccurate and that subsequent year's methods are accurate. This does not reconcile with SCO's statements in the Draft Report which were critical of the majority of the results of later tracking methods. It should be noted that SCO decided that the small percentage of "properly documented" time records from the later years were sufficient to form the basis of the 2.5 hours per evaluation used to approve costs for the entire audit period.

In all of this analysis, SCO never asked the basic question of why one method yielded a higher average time than the other method. There is no guideline restriction which prevents claimants from utilizing different methods from one year to the next year.

5. The Reason Why the Methodologies Vary

The limited time documentation from the FY 2006/07 through 2008/09 periods used by SCO to derive its allowable 2.5 hours per evaluation did not include all eligible activity within the evaluation process. The forms provided by SCO to EGUSD on April 26, 2013 demonstrate that ongoing informal teacher observation time was not documented and included. This critical, ongoing and time consuming element of the teacher evaluation process was included within the supporting documentation for the initial claim years and is the main reason why the results of the different methods vary.

SCO recognized in its Final Audit Report of the Carlsbad Unified School District dated June 15, 2013 that informal observations are an eligible activity. SCO's position regarding this activity is stated at the top of page eight of the Carlsbad Unified School District Final Report. EGUSD requests its time spent on this activity be approved as well.

6. Effective Date of the Guidelines is September 27, 2005

SCO's interpretation of the contemporaneous documentation language contained in the guidelines is a moot point since the guidelines for the Stull Act program were adopted September 27, 2005 by the Commission. The initial claim period predates the date of guideline adoption. SCO's application of an overly narrow interpretation of the supporting documentation guideline language to claims prior to the fiscal year 2005/06 violates the Clovis Unified School District appellate court decision dated September 21, 2010. This decision found SCO could not apply contemporaneous source documentation requirements (CSDR) prior to the date the CSDR language was actually approved by CSM and added to a program's guidelines. In addition, SCO is using an unlawful retroactive rule to reduce claims.

7. SCO did not complete the audit within two years

Government Code Section 17558.5, (a) states "*A reimbursement claim for actual costs filed by a local agency or school district pursuant to this chapter is subject to the initiation of an audit by the Controller no later than three years after the date that the actual reimbursement claim is filed or last amended, whichever is later. However, if no funds are appropriated or no payment is made to a claimant for the program for the fiscal year for which the claim is filed, the time for the Controller to initiate an audit shall commence to run from the date of initial payment of the claim. In any case, an audit shall be completed not later than two years after the date that the audit is commenced.*"

SCO commenced the Stull Act Mandated Cost audit of EGUSD, for the period July 1, 1997/98 through June 30, 2009 with an engagement letter and documentation request dated October 12, 2010. It should be noted that SCO threatened to disallow all costs for the audit period in an email dated October 29, 2010 based on a mistaken belief that EGUSD had not provided requested documentation. SCO decided to redirect the assigned auditor to another project in November 2010 even though the audit had already commenced and the requested documentation provided. SCO resumed the audit in September 2011 while adding FY 2009/10 to the audit scope. The Draft Report for this audit was not issued until April 22, 2013. The completion of this audit will have occurred beyond two years and is in violation of this statute.

In addition, Government Code Section 17558.5(e) states "Nothing in this section shall be construed to limit the adjustment of payments when inaccuracies are determined to be the result of the intent to defraud, or when a delay in the completion of an audit is the result of willful acts by the claimant or inability to reach agreement on terms of final settlement." None of these exceptions apply to the EGUSD Stull Act audit, SCO simply commenced the audit, decided to postpone the audit and as a result did not complete the audit within two years.

8. Requested Action

EGUSD wants to be reimbursed for its actual cost to comply with this mandate. EGUSD's initial claims were properly documented and supported according to the guidelines and SCO's acceptance of this initial claim documentation would be acceptable to EGUSD. EGUSD has already communicated to SCO regarding data entry errors made on its initial claims.

In the alternative, EGUSD is still willing to provide SCO additional assurance regarding its actual costs of conducting teacher evaluations by conducting a time study as proposed in our letter dated April 8, 2013. This proposal was not made because EGUSD had concerns regarding the adequacy of the documentation supporting its initial claims but was made in order to come to an acceptable resolution of this audit for both parties and to avoid protracted and costly actions before the Office of Administrative Law, the Commission, and/or the courts.

On April 17, 2013, however, SCO rejected EGUSD's time study proposal. SCO's reasoning was arbitrary and EGUSD did not receive the same treatment afforded to another school district that did a poorer job on its documentation. EGUSD was rejected because a minimal amount of its incomplete documentation was accepted by SCO and now EGUSD somehow has to accept the results of this incomplete product. EGUSD requests that SCO reconsider its decision regarding a current time study or conversely, accept the initial claim documentation

Please contact me with any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Rich Fagan", followed by a horizontal line.

Rich Fagan
Associate Superintendent of Finance & School Support
Elk Grove Unified School District

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